

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
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CEA-01 /098 W
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R 091509Z MAR 78
FM AMEMBASSY STOCKHOLM
TO SECSTATE WASHDC 3246
INFO AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY HELSINKI
AMEMBASSY OSLO
AMEMBASSY PARIS
AMEMBASSY REYKJAVIK

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USEEC

USOECD

E.O. 11652: N/A
TAGS: EGEN, ELAB, SW
SUBJ: SWEDISH GOVERNMENT NO LONGER WHOLLY PESSIMISTIC ABOUT
OUTLOOK DURING ECONOMIC POLICY DEBATE

REF: (A) 77 STOCKHOLM 3944, (B) 77 STOCKHOLM 5215, (C) STOCKHOLM
0153, (D) STOCKHOLM 0833

1. FOR THE FOURTH TIME IN JUST OVER FOUR MONTHS, THE SWEDISH
PARLIAMENT SPENT TWO DAYS, ON MARCH 1 AND 2, DISCUSSING THE
COUNTRY'S ECONOMIC SITUATION. THIS LATEST DEBATE WAS OCCASIONED
BY THE FINANCE COMMITTEE'S REPORT ON THE JANUARY BUDGET BILL
(REFTEL C) AND COUNTERMOTIONS OF THE OPPOSITION.

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2. THE GOVERNMENT'S VIEWS WERE PRESENTED BY THE CHAIRMAN OF
THE FINANCE COMMITTEE, LIBERAL MP BJORN MOLIN, WHO WAS BACKED
UP BY ECONOMICS MINISTER GOSTA BOHMAN, BUDGET MINISTER INGEMAR
MUNDEBO, PRIME MINISTER FALLDIN, INDUSTRY MINISTER NILS ASLING,
AND RETIRING LIBERAL PARTY LEADER AND LABOR MINISTER PER AHLMARK.
THE SOCIAL DEMOCRATIC OPPOSITON WAS CHIEFLY REPRESENTED BY
KJELL-OLOF FELDT AND PARTY LEADER OLOF PALME.

3. THE GENERAL IMPRESSION GIVEN BY THE DEBATE WAS THAT THE WHEEL OF ECONOMIC ROLES HAS ALMOST COME FULL CIRCLE IN THE PAST 18. MONTHS: ON THE PART OF THE FALLDIN GOVERNMENT, FROM ITS EARLY PORTRAYAL OF SWEDEN'S ECONOMIC SITUATION IN THE BLACKEST OF TERMS TO A MORE OPTIMISTIC STAND; ON THE PART OF THE SOCIAL DEMOCRATS, WITH A SHIFT FROM ITS EARLY ROLE OF HANDING OVER AN ECONOMY IN THE BEST OF TRIM TO ONE OF DOOMSDAY PROPHECY.

4. KJELL-OLOF FELDT, FOR THE SOCIAL DEMOCRATS, WARMED TO THE TASK WITH THE FOLLOWING BLEAK STATEMENT: "WE HAVE BEHIND US A YEAR IN WHICH TOTAL PRODUCTION FELL CONSIDERABLY, IN WHICH WE SAW A REDUCTION IN REAL WAGES, A DECLINE IN HOUSING CONSTRUCTION, AND A BIGGER DROP IN INDUSTRIAL INVESTMENTS THAN EVER BEFORE IN THE POSTWAR PERIOD. AT THE SAME TIME, WE HAVE SEEN CLEARER SIGNS OF SERIOUS IMBALANCE IN THE ECONOMY: INFLATION INCREASED RAPIDLY, AND DEFICITS IN FOREIGN TRADE AND THE NATIONAL BUDGET HAVE SWELLED TO A SIZE CAUSING MUCH CONCERN. IT IS NO EXAGGERATION TO ASSERT THAT THERE IS NO COMPARABLE COUNTRY WHICH HAS HAD ANYTHING LIKE THE WEAK ECONOMIC DEVELOPMENT SWEDEN EXPERIENCED IN 1977". FELDT SUGGESTED TO THE PARLIAMENT THAT THE GOVERNMENT WAS DOING NOTHING TO IMPROVE MATTERS, THAT IT WAS JUST WAITING FOR HIGHER PROFITS AND AN INTERNATIONAL UPSWING TO COME AND SAVE THE COUNTRY FROM TORMENTS WHICH HAD BEEN LARGELY CAUSED BY THE GOVERNMENT ITSELF.

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5. GOSTA BOHMAN, WHO CAN ILLUSTRATE THE GOVERNMENT'S CHANGING ROLE, DID NOT SAY THAT 1977 HAD BEEN A GOOD YEAR, OF COURSE, BUT HE ASSERTED THE DEVALUATION OF LAST YEAR HAD HELPED OFFSET EXPORT PROBLEMS CREATED BY HIGH WAGES, WAGE SETTLEMENT HAD "BROUGHT THE GENERAL COST LEVEL PER HOUR DOWN TO WHERE IT OUGHT TO BE", THEREBY LAYING THE FOUNDATION FOR ECONOMIC RECOVERY. MINISTER BOHMAN NOTED "HOPEFUL FIGURES FOR OUR FOREIGN TRADE IN NOVEMBER, DECEMBER, AND JANUARY. EXPORTS ARE ON THE WAY UP, IMPORTS DOWN... TAKING INTO ACCOUNT THE CHANGES IN EXPORT AND IMPORT PRICE LEVELS OCCASIONED BY THE DEVALUATIONS, WE SEE THAT THERE HAS BEEN AN INDISPUTABLY CLEAR VOLUME IMPROVEMENT, WHICH, I BELIEVE, BODES WELL FOR THE FUTURE." ORDER INFLOWS HAD ALSO INCREASED IN CERTAIN SECTORS, HE SAID, AND THERE HAD BEEN CONSIDERABLE REDUCTION IN EXCESS INVENTORIES. INDUSTRY MINISTER ASLING CHIMED IN WITH THESE SENTIMENTS OF RESERVED OPTIMISM.

6. THE DEBATE WAS LARGELY A REPETITION OF ARGUMENTS ALREADY WELL AIRED IN THE SWEDISH PARLIAMENT IN RECENT MONTHS (SEE REFTELS B AND C). THE SOCIAL DEMOCRATS SAY NO TO THE DEVALUATIONS, NO TO THE RETREAT FROM THE EUROPEAN CURRENCY SNAKE, NO TO THE GRADUAL REMOVAL OF THE PAYROLL TAX PROPER, NO TO THE LOWERING OF MARGINAL INCOME TAX RATES, AND NO TO INDEXATION OF TAXES.

THEIR COUNTER PROPOSALS, WHOSE CORNERSTONE IS A BILLION DOLLAR INDUSTRIAL RESTRUCTURING FUND TO BE PAID FOR BY EMPLOYERS, WERE SUMMARIZED IN REFTEL A. THE VPK COMMUNIST PARTY WOULD LIKE TO SEE IMPROVED WAGES, PENSIONS AND CHILD ALLOWANCES COUPLED WITH A GENERAL PRICE FREEZE, A RENT FREEZE, AND THE REMOVAL OF VAT ON FOOD.

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7. ON THE OTHER SIDE OF THE STREET WE HAVE THE GOVERNMENT'S DEFENSE OF ITS ACTION, SUMMARIZED HERE BY MINISTER BOHMAN, WHO ASKED: "WHAT WOULD SWEDEN'S ECONOMY AND SWEDEN'S COMPETITIVENESS HAVE LOOKED LIKE TODAY IF THE SWEDISH KRONA WERE AT A LEVEL 25 PERCENT ABOVE WHAT IT NOW IS IN RELATION TO THE D-MARK AND ROUGHLY 15 PERCENT HIGHER IN RELATION TO OTHER CURRENCIES? IN WHAT STATE WOULD OUR ECONOMY HAVE BEEN IF WE HADN'T LEFT THE CURRENCY SNAKE, WHICH WOULD HAVE BROUGHT A 7 PERCENT INCREASE IN THE VALUE OF THE KRONA AGAINST THE D-MARK IN THE PERIOD AUGUST-FEBRUARY ALONE? AND IN WHAT STATE WOULD WE HAVE FOUND OURSELVES HAS EMPLOYERS' LABOR TAXES...BEEN AT LEAST FOUR PERCENT

ABOVE THE LEVEL WE HAVE TODAY?"

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8. SUCH WAS THE PATTERN OF POLITICAL POLARIZATION DURING THE DEBATE, THOUGH THERE WAS A CONSENSUS BETWEEN THE GOVERNMENT AND THE SOCIAL DEMOCRATIC OPPOSITION, AS MINISTER BOHMAN HIMSELF NOTED, THAT BOTH PRIVATE AND PUBLIC SECTOR CONSUMPTION MUST BE RESTRAINED AND INDUSTRIAL INVESTMENTS BE STIMULATED.

9. A LARGE PART OF THE DEBATE WAS DEVOTED TO WAGE-EARNER FUNDS, A SUBJECT GIVEN FRESH TOPICALITY BY THE PRESENTATION OF A JOINT PLAN BY THE CONFEDERATION OF TRADE UNIONS (LO) AND THE SOCIAL DEMOCRATIC PARTY (SEE REFTEL D). THIS ASPECT OF THE DEBATE WILL BE DEALT WITH IN A SEPERATE MESSAGE.

10. EMBASSY ASSESSMENT OF THE CURRENT ECONOMIC SITUATION FOLLOWS BY SEPTTEL.
KENNEDY-MINOTT

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